12/14/87 C0175-1A

American Banker

The Daily Financial Services Ne

155383000015 8/15/05 C11
STATISTICAL REFERENCE INDEX
JOHN F KENNEDY
4520 EAST - WEST HIGHWAY
SITE 800
BETHESDA MD 20814

VOL. CLII NO. 238 Monday, December 7, 1987 d Year

Today

NEWS MONDAY WEEKLY REVIEW

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As time goes on, the walls we create — be they "fire" or "Chinese" — have a tendency to develop holes and crumble.

Robert Forrestal, president of the Federal Reserve Bank of Atlanta, saying current problems cannot be solved with new institutional structures. [Page 1]

CoreStates Moves into Nationwide Point-of-Sale

Toledo Trust Is First Bank Customer for Philadelphia Company's Access System

By JEFFREY KUTLER

NEW ORLEANS — CoreStates Financial Corp., Philadelphia, a national power in electronic banking through its Mac automated teller machine network, is trying to make a similar mark in the point-of-sale payments business.

Corporate Strategy

CoreStates, the parent holding company of Philadelphia National Bank, has signed the Toledo Trust Co. as its first national point-of-sale customer. After three months of testing, the Ohio bank is using CoreStates' system to deliver transaction processing services to credit-card-accepting merchants in five states.

The arrangement gives Toledo Trust access to technology that would be costly to develop on its own. It has attracted merchant customers as far away as Niagara Falls, N.Y., and Tampa, Fla.

Outlays for Electronic Delivery Systems Page 16

For CoreStates, the deal represents an initial foray into a market that several giant telecommunications providers are turning into a competitive free-for-all.

Those companies include GTE Corp., McDonnell Douglas Payment Systems Co., J.C. Penney Systems Services Inc., and Sears Payment Systems Inc.

Citicorp, MCorp, Mellon Bank Corp., and Security Pacific Corp. are among the few banking companies that Douglas Anderson, executive vice president of Philadelphia National Bank, considers direct competitors for CoreStates' point-of-sale program. CoreStates' program is called Access.

"We feel we are far enough along the learning curve that we have an advantage," Mr. Anderson said.

CoreStates has received little notice outside the Mid-Atlantic region but has been gathering electronic point-of-sale experience since 1983 when it conducted a test for Sun Co. gasoline stations around Philadelphia.

Its point-of-sale network has grown to 5,000 terminals nationwide, with thousands more on order. The number does not yet compare to McDonnell Douglas' 160,000, but it is a strong beginning from a regional base.

Mr. Anderson said many of his competitors are concentrating mainly on the data communications aspect of

CoreStates: Page 16 ➤

Expanded Powers Will Require Curbs On Deposit Insurance, Fed Official Says

By PETER MANTIUS

ATLANTA — Federal deposit insurance needs to be scaled back before banks are granted additional powers in the securities business, according to Robert Forrestal, president of the Federal Reserve Bank of Atlanta.

That concept is a clear departure from recent proposals to reform the nation's financial system. The chairmen of the Federal Deposit Insurance Corp. and the Securities and Exchange Commission support plans that would let banks operate securities affiliates that are legally separate from banking operations.

The president of the Federal Reserve Bank of New York, E. Gerald Corrigan, wants to see three types of holding companies that would have distinctly different powers.

But Mr. Forrestal, speaking at the Connecticut Economic Club's annual convention in Stamford, expressed doubts that so-called walls between types of institutions or divisions within one institution can effectively control risks to insured deposits.

"We need to free ourselves of the idea that we can solve current problems with new institutional structures," Mr. Forrestal said. "As time goes on, the walls we create — be they 'fire' or 'Chinese' — have a tendency to develop holes and crumble."

As an alternative, Mr. Forrestal proposed limiting deposit insurance to $100,000 in a single transaction ac-

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Consumer Groups Ready for Fight On Disclosure Bill

By JAY ROSENSTEIN
Washington Bureau

WASHINGTON — Consumer groups plan to battle lenders over a provision in a credit card disclosure bill that would prohibit states from imposing tougher laws than the federal government.

The Senate Banking Committee last Wednesday approved a bill by voice vote that would would require credit card issuers to disclose the annual fee, the interest rate, the method of calculating the balance, and the grace period during which no interest is charged on an unpaid balance.

Consumer Groups: Page 14 ➤

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BANKING TRENDS

Mergers May Open Door for Superregional Trade Associations

By DR. PAUL S. NADLER

FOR A QUICK STUDY of what is happening to banking, it is worthwhile to take a look at what is happening to banking's state trade associations.

The associations have always been the backbone of smaller banks, to which they have turned for ideas and help both in operations and in winning a favorable environment from legislators.

It is sad that the major banks seldom show much support for the group at state association meetings any more. When the associations hold investment seminars and management development programs, the states' leading banks are usually represented only by correspondent officers who are there to do business rather than to learn. It is as if the large banks want everyone to know they have nothing to learn from the ideas that are important to their smaller brethren.

One trend that has developed in the past few years is the growth of the state independent bankers associations. These groups, which focus on the problems and goals of community banks, have grown in strength and size, and some have become more useful to local bankers than the regular state associations.

To some outside observers, the growth of the independent bankers groups seems unnecessary because the state associations are themselves largely devoted to the problems of the community banks. They are not captives of the largest banks in the state by any means.

But human nature being what it is, having state associations of independent banks gives the bankers another organization to join and, more important, another set of "chairs" to work through on the way to being state president for a year.

There is a lot of honor in being state president and a lot of challenge and fun. So having two associations in the state gives the banker who wants to look outside of his home bank for challenges that much more opportunity to make a name for himself in the state.

Being an executive in a state trade association is no easy task. They have to lead and pretend they are following. Their areas of concern range from what legislation is the wings to whether the hotel overcharged for drinks at the convention and who should sit where at the annual banquet.

Tenure is something that simply does not exist in trade association work. And more than once an unsuspecting trade executive has been asked to step outside of the meeting for a minute only to be told upon his return that he has been fired. Keeping fences mended with the bankers of the state is thus a key part of the trade executive's job, and those who do not make every effort to understand what their constituents want, and want now, find their tenure brief indeed.

Nadler Says:

What worries the leaders of banking groups today is how the changing structure of banking under deregulation is likely to affect their associations.

But what worries the leaders of banking groups today is how the changing structure of banking under deregulation is likely to affect their associations.

Already we have seen some thrift associations combine with other thrift groups, and even, in some states, bank associations combine with thrift groups. With deregulation and the similarity of powers it has brought to banks and thrifts, there is diminishing need for two associations to handle the same activities.

Another worry for trade execs is whether the geographical expansion of banks and the development of superregional firms will make it necessary for state associations to combine into regional groups to avoid expensive duplication of functions.

"We don't need six trade associations in New England all providing full service to the banks that are operating in several of the states," says Paul Foley, president and top trade executive of the Massachusetts Bankers Association.

"Why should a major superregional pay $60,000 a year to each state association for membership?" he asks.

Profitable Activities

Mr. Foley says we are likely to see superregional associations develop with representatives situated in each state capital to deal with specific legislative issues.

Maybe this helps explain why more associations are looking at developing activities that generate a profit, such as regional schools or compliance programs, instead of depending on dues for most of their funds. As the banking industry tries to curb noncredit expense, association dues certainly are open to cuts.

But as associations try to remain viable and justify the continued receipt of dues, they are becoming leaders in developing new programs an pushing for new ways to serve their bankers. This has led to far more imaginative banking conventions and programs and far less emphasis on the traditional convention — where socializing was the key motive for attendance.

And if the bankers feel they can honestly make a deeper wedge into the areas of real estate and insurance, and they feel their state associations can help them in this regard, then the present fears of a lessened role for state associations in our banking structure could well be terminated almost overnight and be replaced by greater dependence on the state associations than we have witnessed in a long time. ■

Dr. Nadler is a professor of finance at Rutgers University's Graduate School of Management and is contributing editor of the *American Banker*.

American Banker
The Daily Financial Services Newspaper
Established 1836
One State Street Plaza, New York, N.Y. 10004
(212) 943-6700

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Charlotte: (704) 522-7181
Classified: (800) 221-1910
International: (212) 943-4250
Telex: 421768 ABKR

Subscription Rates: U.S. and Canada $495.00. Canada Air Mail and Foreign $1025.00. Single copy $3.25
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Published daily except Saturday, Sunday and holidays.
Second Class Postage Paid at New York, N.Y. and at additional mailing offices in U.S.A. (ISSN No. 0002-7561)
Postmaster: Send address changes to American Banker, 1 State Street Plaza, New York, N.Y. 10004

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Outside New York - (800) 221-1809
In New York - (212) 943-9589 Collect.

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OVERVIEW

Severity of Contraction Depends on Washington

By H. ERICH HEINEMANN

THE RISK is rising that the United States economy may face a serious drop in business activity in 1988. The odds still strongly favor a short, relatively mild contraction.

The longer policymakers procrastinate in taking actions needed to defuse the burgeoning crisis in world financial markets, however, the greater the likelihood of a substantial decline. Washington is paralyzed. Wall Street seems mesmerized as the drama spins toward an uncertain conclusion.

The international value of the dollar is the key to the business and financial outlook — as well as Washington's Achilles' heel. Martin Feldstein, once chairman of President Reagan's Council of Economic Advisers and now one of the administration's sharpest critics, warned last week that "investors around the world are no longer willing to finance the trade deficit implied by the dollar's current level."

Nonetheless, Federal Reserve Chairman Alan Greenspan is under pressure from the White House and governments in Japan and Europe to stem the dollar's decline. This implies higher U.S. interest rates and more downside risk to the economy.

Much of the trouble can be traced to the popular but illusory idea of international economic cooperation. If only the Good Fairy from the Group of Seven would wave her magic wand, all those nasty troubles in the financial markets would go away. In effect, the White House has been trying to sell the world the notion that Tokyo and Bonn, not Washington, are the critical players in the dollar game.

Heinemann Says:

If only the Good Fairy from the Group of Seven would wave her magic wand, all those nasty troubles in the financial markets would go away.

President Reagan summed up his case in his address to the annual meeting of the International Monetary Fund in September: "I call on the surplus countries . . . to find the political gumption to stimulate their economies without reigniting the fires of inflation . . .

"The health of the world economy does not hinge solely on U.S. budget policy. As the U.S. budget and trade deficits decline, other countries must take up the slack, particularly on imports from developing countries."

This sounds fine, especially in a unidimensional report on the evening TV news. As a practical matter, though, the result has been to shift the onus for constructive action from Congress to the Bundesbank, the West German central bank, and/or from the White House to the Ministry of Finance in Tokyo. The outcome was predictable — paralysis and counter-productive action.

For example, Congress is still bogged down in wrangling over the details of a modest packet of fiscal reforms. Even if fully implemented, these would hardly make a dent in the Treasury deficit.

In reality, the outlook for the federal deficit is bleak. First and foremost, the budgeteers have assembled a typical package of measures based on blue smoke and mirrors.

These include asset sales, accelerated revenue collection, improved tax collection techniques and reduced interest rates. Even if the presumed benefits from these measures were all realized (doubtful at best), it's unlikely they will be very helpful to the capital markets.

Moreover, should the U.S. economy slide into a recession next year, spending cuts and revenue increases would go out the window. Federal borrowing requirements would rise sharply.

The Federal Reserve has responded to the pressure to "defend" the dollar (against what was never quite clear) by propping up short-term interest rates. The Fed is keeping rates steady despite

Overview: Page 10 ➡

H. Erich Heinemann is chief economist of Moseley Securities Corp.

Study Shows Gradual Hikes in Bank Funding for Electronic Services

By JEFFREY KUTLER

NEW ORLEANS — Commercial banks are redeploying assets away from branches and toward electronic delivery systems — but only gradually.

A Bank Administration Institute survey, using data from 117 U.S. banks of all sizes, found that they will increase investments in retail payment and customer-service systems significantly over the next three years.

But a minority of those funds will be spent on electronic technologies such as automated teller machines and point-of-sale terminal networks, according to bankers' projections.

For the average bank, the vast majority of capital spending on delivery systems — roughly 80% to 90%, depending on the bank's size — will remain in brick-and-mortar branch facilities through 1990.

Delivery systems were defined in the survey as branches, ATMs, point-of-sale terminals, and less entrenched technologies such as automatic voice response and home banking.

The survey, based on a detailed questionnaire mailed last spring that took retail bankers more than an hour to complete, revealed that bankers are slowing their ATM investments relative to point-of-sale and the other high-technology alternatives.

The largest banks — with $1 billion or more in assets — expected an average decline in ATM investments of 21%, to $318,000 per institution in 1990. Their POS and higher-tech spending will double or triple, while total delivery system investments rise 20% to an average of $3.2 million.

At midsize banks, between $100 million and $999 million in assets, ATM investments are expected to rise over three years by an average of 65%, to $38,300, while POS and other high-tech investments are predicted to rise more than tenfold. These banks' total delivery system spending is slated to rise to $336,300 per institution in 1990, 37% higher than in 1987.

The Bank Administration Institute, based in Rolling Meadows, Ill., collaborated on the survey with the Boston University School of Management. Some findings were released at the institute's retail delivery systems conference here last week. They will be published next month in a book called "The Future of Retail Banking Delivery Systems."

Investments in Retail Delivery Systems

1987-1990, by asset group (per average bank, thousands of dollars)

	Under $100 Million			$100 Million-$1 Billion			Over $1 Billion		
	1987	1990	Incr.	1987	1990	Incr.	1987	1990	Incr.
Branch offices	$43	$88	107%	$222	$282	27%	$2,169	$2,554	18%
Proprietary ATMs	5	10	102	23	38	65	404	318	(21)
Point-of-sale	0	0	...	1	7	1067	47	100	112
Other[1]	1	2	85	1	9	1350	84	277	228
Totals	**49**	**100**	**107**	**246**	**336**	**37**	**2,704**	**3,249**	**20**

Dollars rounded to nearest thousand; percentages based on unrounded amounts. [1]Other self-service technologies, including interactive terminals, voice response systems, and home banking. Sample: 117 banks.
Source: Bank Administration Institute survey, "The Future of Retail Banking Delivery Systems"

Big Banks and Automated Systems

The move to greater investments in electronics is most pronounced at large and midsize banks.

By 1990, the $1 billion-asset and larger banks will be devoting an average of 21% of their annual retail delivery system investments to automated systems, up from 19% in 1987.

In dollar terms, the large banks' electronic investments — including the dampening effect of ATM cutbacks — will rise by an average $160,000 or 30% over the three years. This is faster than their anticipated 18% growth in brick-and-mortar investments.

At banks with $100 million to $999 million in assets, the electronic proportion will rise to 16% in 1990 from 10% this year, and the dollars by an average of $30,000, or 121%. That compares with only 27% growth in the brick-and-mortar area. Banks under $100 million in assets showed almost no change in the branch-electronic mix. Although their total delivery system spending is projected to double by 1990, to $100,000 per institution, the same 88% is going toward brick and mortar in both 1987 and 1990.

While the survey seems indicative of industry changes that have shown up in other reports, its small sample relative to the total of 14,000 banks may limit the statistical reliability of the findings.

This is especially true in the under-$100 million category, where only 32 banks participated out of a "universe" of over 12,000.

Service Quality an Issue

While they prepare for a future in which more services are delivered electronically, bankers are growing increasingly concerned about maintaining service quality, the survey said.

As retail services are delivered in an automated, impersonal fashion, it becomes essential to employ educated workers to fill the gaps and respond to consumer complaints and inquiries.

Bankers in the survey said their top employment priorities were to maintain employee morale, institute effective training programs, and retain qualified personnel.

The bankers do not see automation as a means to sizable staff reductions. They do regard a high-quality staff as a competitive asset.

Asked to list competitive priorities in order, the 117 surveyed bankers rated courteous service first with a score of 6.5 on a scale of 1 to 7.

Convenient service, broadened customer relationships, accurate and timely information all scored 5.9 or higher on that scale.

"We cannot automatically assume that staff levels will fall in proportion to automation," said Marjolijn van der Velde, managing director of retail financial services at BAI.

"Automation actually increases inquiries," Ms. van der Velde added. "The number of support staff may have to remain stable, or may even grow over the next few years" to meet the demand for customer service.

Ms. van der Velde said that the proportion of customer inquiries handled by branch tellers and platform representatives will likely fall to 59% in 1990 from 68% today. Many of those inquiries are shifting to ATMs, whose share of the inquiry load will rise to an estimated 15% from 9%.

But calls to the customer service area are seen holding steady, at 16% in 1990 compared with 15% today.

The study said banks that develop a responsive work force "can effectively use these [branch] structures as a focal point for interacting and managing relationships with customers."

Brick-and-mortar facilities thus become more productive and their cost structures less burdensome. The branches become part of an upgraded delivery system that blends people skills with computers.

"Management in the 1990s will have to be more communicative and flexible" if they are to avoid morale problems among customer-contact personnel, the study concluded. ■

Strategic Dates
Oct. 10, 1988

NATIONWIDE BANKING: Michigan legislation providing for nationwide interstate banking goes into effect today.

CoreStates Financial Moves into Nationwide Point-of-Sale Business

➳ Continued from Page 1

point-of-sale payments. CoreStates offers a complete turnkey package that makes implementation theoretically trouble-free for users like Toledo Trust.

"The turnkey aspect makes a big difference," Mr. Anderson said. "We immunize our banks and merchants from all worry about telecommunications and service.

"We can go anywhere in the country at the drop of a hat, or the drop of a terminal," he said.

Flat Fee for Each Transaction

Access users buy or lease their merchant terminals and pay CoreStates a flat fee per transaction, which the company has not publicly disclosed.

"Access is designed for good-size banks like Toledo Trust that can compete but may not be able to afford the technology," said Jeffrey Connelly, senior vice president and manager of electronic payment services for CoreStates.

"We provide a solution — including terminal leasing, servicing, ongoing support, customer setup — that makes them [banks] competitively strong," Mr. Connelly said.

"We now have the ability to compete for merchant business with a high-quality, cost-effective point-of-sale product line, without having to shoulder the product development cost," said George Russ, vice president of merchant services at Toledo Trust.

Toledo Trust is taking advantage of CoreStates technology to build a business reaching far from its home base.

"Not everybody can participate directly in the technology explosion," Mr. Russ said in an interview this week during the Bank Administration Institute's retail delivery systems conference.

"I want to be in a national market, but I can't get on a plane for Tampa if something suddenly goes wrong down there," he said.

CoreStates, as a regional banking company, prefers to sell the Access service to other regional banks rather than trying to penetrate those markets itself. "Regional banks know their own markets best," Mr. Anderson said.

"CoreStates has defined the service so well that we can drop-ship a terminal to anywhere in the country, and the store people can read the directions and have the terminal connected in a couple of hours," Mr. Russ said.

Toledo Trust has 70 branches in Ohio and 2,500 merchant credit card customers. Access allows the bank for the first time to offer data capture, which speeds the funds-transfer process by replacing paper payment drafts with electronic data communications.

Access also provides on-line card authorizations, debit card acceptance, and check guarantees at the user's option. The network can authorize any combination of debit cards, private-label store cards, and credit cards including American Express, Discover, Diners Club, Carte Blanche, MasterCard, and Visa.

Mr. Russ said Toledo Trust chose a proven system that can enhance the bank's deposit relationships with retailers.

Value-Added Services

Besides transaction processing, Access can deliver what Mr. Russ calls value-added services. These include sales reports, data collection, electronic mail, and cash consolidation reports — cash management services that yield additional fee income to the bank.

"These merchant customers are depositors in our bank, and deposits are the name of the game," Mr. Russ said. "The POS data capture service, which we call Vista Access, is a door-opener to Toledo Trust's existing family of corporate-service products."

Access is an outgrowth of Mac, the ATM network with 2,400 machines serving six million cardholders in Delaware, New Jersey, New York, and Pennsylvania.

Through Mac, CoreStates has been in the ATM/debit card business since 1979. Mac handles 16 million transactions per month for more than 300 financial institutions and is the fifth largest shared ATM network in the country, according to the newsletter *Bank Network News.*

Also in CoreStates' Mac product line is an in-home computer banking service, currently being delivered by seven financial institutions to about 600 consumers.

Toledo Trust is one of four banks outside the Mac network's home territory that will be on the Access point-of-sale system by yearend. Another 10 Mac members are users.

"We'd like to double the total to 28 in 1988," Mr. Connelly said.

Most of the current 5,000 terminals are at petroleum retailing outlets bearing the Sun, Getty, Atlantic, and other brand names.

"We expect to double or triple that number [of terminals] in 1988," Mr. Anderson said.

Most of the 3.5 million monthly point-of-sale transactions now processed by the Mac/Access switch are credit card items, but Mr. Anderson anticipates rapid growth in debit card transactions.

In a related development, Philadelphia National Bank announced this week that it is installing a point-of-sale network linking Texaco jobbers across the United States. In the petroleum industry, jobbers are independent marketers.

The electronic terminals will provide authorization and data capture of transactions made with Texaco, Visa, MasterCard, American Express, and Discover credit cards, and various debit cards.

"The network will benefit consumers by offering faster services and convenience in purchasing," Mr. Connelly said. "And it will benefit Texaco jobbers by providing greater security and efficiency in payment for their products." ■